

September 30, 1998

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CHIEF MARKETING OFFICER
AND SENIOR VICE PRESIDENT

Subject: Marketing New Projects
(RG-MA-98-002)

During our effort to identify systemic areas for review, we identified several issues concerning the overall marketing efforts and the *CustomerPerfect! 5.1* Process. This final management advisory report highlights our observations related to these issues and offers suggestions for improvement. We have summarized your comments after each suggestion in this report, added the additional comments that you provided and included your comments as an Attachment. Management's comments were generally responsive to the issues and suggestions raised in this report.

As part of our research, we examined the overall 5.1 Process concept and flowchart, and interviewed key stakeholders. Our work was conducted between September 1997 and February 1998, using the President's Council on Integrity and Efficiency *Quality Standards for Inspections*.

**RESULTS IN
BRIEF**

The Marketing Office has the demanding and complex task of developing new business projects. These projects are designed to help the Postal Service generate additional profit and sustain revenue growth in an environment of dynamic technological development. Marketing has revised its developmental process to become more effective and strengthen management controls. However, marketing management needs to reenergize its efforts by introducing additional business projects. Although we are continuing our research, we identified 11 issues in the areas of marketing management, project funding and control process, which merit your attention.

Marketing management provided a draft response to our report on April 23, 1998, which appears as Attachment 1. Management agreed with and has implemented 7 of our 10 suggestions but did not believe that further action was necessary for the remaining suggestions (Numbers 1, 2 and 8). Since this report is advisory in nature, we do not intend to elevate the disagreements. Instead we will reevaluate the issues in a future audit.

Since our draft report was initially discussed with marketing management, the Postal Service has examined its processes and operations, including Marketing, using the criteria established for the Malcolm Baldrige National Quality Award. The Postal Service published the findings and recommendations of the assessment in June 1998. The feedback report identified five improvements that could be realized in the management of product and service processes including: the tracking and validating the performance of new product development; generating systematic ideas; rolling out national enhancements; establishing new process control measures; and improving several other program operations. Most of the five identified improvements are similar to the issues we identified during our review.

BACKGROUND

Marketing has primary responsibility for developing and implementing products and services that produce additional profit for the Postal Service, add value to existing product lines, are competitively priced, and meet future technological challenges. Marketing strives to maintain focus on the core businesses while developing new business opportunities with high growth potential. Marketing's primary operations include Retail, Stamp Services, Advertising, Core Businesses, Tactical Sales, Customer Relations and New Products.

Since 1995, the Marketing Office has utilized a process for developing and implementing new national marketing projects called the *CustomerPerfect! 5.1* Process. Management controls were further refined in response to weaknesses in operations that occurred under the previous Senior Vice President for Marketing.

The Marketing Office implemented nationally one profit-generating project (FirstClass PhoneCards) and manages five ongoing research and development pilot projects

(Post Office On-Line, Remitco, Customer Initiated Payment System (CIPS)¹, Liberty Cash Card and Dinero Seguro). These six pilot projects have, since inception, incurred expenditures of \$75.2 million as of May 22, 1998. For the same period, these projects generated \$32.8 million in revenue, which includes \$23 million from FirstClass PhoneCards. Marketing projects are either profit oriented or research and development.

Postal Service management also separately tracks the "Revenue Generating Programs and Pilot Projects" that involve high dollar investments, high visibility or are of specific interest to the Board of Governors. The FY 1998 Income Statement Summary for Quarter I, lists one profit generating project which has been implemented nationally, and five Revenue-Generating Programs of which three are in the market stage and two are in the start-up phase. Five additional projects are listed as "Pilot Projects" that are not expected to generate revenue at the present time.

In response to a request from the General Accounting Office (GAO), Postal Service management provided in February 1998, an "Inventory of 16 New Postal Products Marketed and/or Under Development During Fiscal Years (FY) 1995 through 1997." A Comparison of New/Ongoing Postal Projects and Programs is attached as Exhibit I.

**MANAGEMENT
OF NEW
BUSINESS
PROJECTS**

OBSERVATIONS

In the marketing management area, we made eight observations:

- ◆ Since 1995, one business project has achieved national roll-out.
- ◆ It is difficult to determine the optimum number of ongoing projects or business lines based upon the existing funding and staffing levels.

Since 1995, one project, FirstClass PhoneCards, has been implemented nationally under the 5.1 Process. The remaining five projects are primarily in the research and

¹ Marketing management advised that this project is currently not being worked, pending identification of interested customers.

development stage. Senior management has not determined how many projects or business lines should be ongoing simultaneously, considering current staffing and funding levels. Without a vision and plan for managing marketing projects or business lines, all receive equal treatment until one is culled for special, expedited attention.

Marketing management advised that during the past year, all ongoing projects were merged into an integrated strategy with two main platforms. Projects were separated into Internet/Electronic Services and Financial Services to support retail operations; with the exception of the Remitco project, which does not fit into either category. In addition, management has limited the number of projects ongoing to minimize financial risk and to focus on the biggest business opportunities.

- ◆ A definition has not been established to identify what types of projects are under what specific management process. (See Exhibit I for a list of the projects.)
- ◆ The 5.1 Process applies to some Marketing projects, but was not applicable to others, such as the Facility Office and International Business Unit (IBU).

During the course of our review, marketing management could not provide a written definition that clarified what is a “New Business Project” and criteria had not been established to identify which projects are subject to specific management processes. Senior marketing management informed us that “new business projects” include only projects that are less than 2 years old, are outside the core businesses, and are not extensions of existing products and services. Under that approach, there would be five pilot projects underway in Marketing, one of which is not currently being worked. In addition, marketing management has not undertaken any new projects and has utilized the budget process to determine the priority when funding projects.

In February 1998, Postal Service management provided GAO with a listing of 16 new Postal products marketed or under development. Of the 16 projects listed: 4 sponsored by the Facility Office, the IBU, and Stamp Services were listed as exempt; 2 Retail projects were also

listed, 1 of which was included in the 5.1 Process and 1 exempt; and 10 New Business projects were reported, 7 of which were included under the 5.1 Process and 3 were exempt.

Management advised that the 5.1 Process was designed to provide uniform project development, effective management controls, and accurate financial projections. Permitting exceptions to this process increases the risk of excessive project costs and untimely project deployment.

- ◆ Ongoing projects have not always been periodically revalidated by a cross-functional team to assure that critical timeframes and return-on-investment ratios continue to be achievable.
- ◆ Changes in both project concept and management have affected project stability and completion.

A cross-functional team has not always periodically revalidated these projects to ensure they meet management's vision and philosophy for revenue generation. The involvement of different groups such as Legal Counsel, Finance, the Management Committee, the Board of Governors, and outside consultants, provides management with unique perspectives, additional expertise, and the validation of supporting information. For example, the Department of Defense uses a Base Realignment and Closure Commission to provide independent assessments of military bases that are recommended for closure.

Without revalidation, projects that may no longer be viable for revenue generation or projects with reduced return on investment ratios may be pursued with diminishing returns. Since these projects are usually multi-year efforts, changes in project management have occurred, which have disrupted project continuity, the timely achievement of interim milestones and ultimate completion.

Marketing management advised that there are only five projects underway which are revalidated during the annual budget process and management planned to present a revalidation review of two of the major ongoing projects in April and August 1998.

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- ◆ Since 1995, new marketing ideas have not been encouraged or developed from available sources in order to concentrate efforts on existing projects and developing platforms.

In the past 3 years, the Marketing Office has not approved any additional new national research and development projects. New projects have not been considered because marketing management believed continuing the development of current projects, first proposed in 1995, was more beneficial than soliciting and/or developing new ideas. In addition, marketing management has begun moving away from developing individual projects to developing consolidated strategies.

During interviews with the Marketing Office staff, some managers stated that acquiring ideas from staff outside the Marketing, Retail or Advertising areas would not be beneficial because outside staff does not generally possess the expertise of those working directly in these areas. In addition, marketing staff believes that it may be counter-productive and strain available resources to begin work on developing and refining new projects, while simultaneously soliciting for other new ideas.

Marketing Office staff indicated that they intend to generate and review other ideas in the future. However, the staff was unsure how these ideas would be generated, what process would be used to review the ideas, what criteria would be developed and used to screen the ideas and how new ideas would be tracked during design and implementation.

Marketing management advised that they were committed to completing the development of the existing projects and have recently begun to solicit for new ideas at recent and upcoming Postal meetings. They have also begun building an idea generation process to be used in the future.

- ◆ Marketing management has not finalized how to utilize the benchmarking review of the best marketing practices of private corporations, prepared by a consultant in October 1997.

In July 1997, Marketing management requested a contractor perform a benchmarking review of the best marketing practices of private firms. The consultant reviewed 13 private firms and provided its results to senior management in October 1997. Marketing management has not yet finalized its plans for incorporating the results of the contractor's review.

Since our draft report was initially discussed with marketing management, the Postal Service has examined its processes and operations, including Marketing, using the criteria established for the Malcolm Baldrige National Quality Award. The Postal Service published the findings and recommendations of the assessment in June 1998.

The feedback report identified five opportunities for improvements that could be realized in the management of product and service processes including:

- (1) developing plans for tracking and validating new product development process performance;
- (2) performing systematic idea-generation phase;
- (3) establishing a process to systemically roll out nationally specific client enhancements;
- (4) clarifying roles and responsibilities of process owners; and
- (5) increasing understanding of effective process control and in-process metrics.

Most of the five identified improvements are similar to the issues we identified during our review.

SUGGESTIONS

We have the following suggestions to help strengthen the marketing process:

- (1) ***Revalidate all ongoing projects, based upon a planned schedule, using cross functional teams and discontinue those projects that have too low a return on investment, require excessive levels of resources, or have incurred unexpected delays.***

Management's Response

Research and development projects are under constant review at present.

Evaluation of Management's Response

Management stated that research and development projects are under constant review, these projects need to

be formally scheduled for periodic revalidation and officially discontinued if the returns on investment are too low.

- (2) ***Define what constitutes new business projects and all other project categories in order to identify those projects subject to the 5.1 Process or other management processes.***

Management's Response

Marketing management believes that it is not simple to easily identify criteria to decide which projects go through the process. However, the use of the budget process determines which projects are a priority for funding. Management asked OIG for a recommendation that differs from the present approach in order for management to evaluate the feasibility of its use.

Evaluation of Management's Response

It is imperative to the success of these new business projects that marketing defines what is a “new business project” and identifies projects subject to a specific management process. By not defining this process, management risks incurring excessive project costs delayed implementation and ultimately project failure. We believe that it is the Marketing Office’s responsibility to establish specific criteria for the management of new business projects. As evidenced in the report, there appears to be confusion over what projects are applicable to the process and how new projects are defined.

- (3) ***As part of the revalidation process, establish continuity of management at the project level once the project is determined to be viable.***

Management's Response

Management agreed with our suggestion.

Evaluation of Management's Response

This action will satisfy the intent of our suggestion.

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- (4) *Review the feasibility of creating special lead teams with specialized expertise for technology, financial and other issues, to provide greater continuity and expedite development.*

Management's Response

Management concurred with our suggestion and stated this is exactly what they have done for Post Office Online.

Evaluation of Management's Response

This action will satisfy the intent of our suggestion.

- (5) *Create a continuous process for actively soliciting new marketing ideas from all sources.*

Management's Response

Marketing management agreed with our suggestion and will map out the present processes for all business. In addition, management welcomes any additional suggestions we may have.

Evaluation of Management's Response

This action will satisfy the intent of our suggestion. The OIG will gladly provide suggestions to management on this process.

- (6) *Develop criteria for formulating, screening, prioritizing, and tracking new marketing ideas using a centralized system.*

Management's Response

Marketing management will undertake a project to map out existing process from idea generation to implementation for all business. Once the baseline is established they will look towards improving the processes.

Evaluation of Management's Response

This action will satisfy the intent of our suggestion.

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- (7) *Finalize how the results of the consultant's benchmarking study will be used.*

Management's Response

The New Business Group is in the process of conducting a benchmarking study of new product ideas and development processes and standards of 15 private industry leaders, focused on financial evaluation, measurement and success criteria, that follows up on the qualitative benchmarking study referred to in this report. Based on the outcome of the study, management will revise the 5.1 process to include a new product idea process and will incorporate appropriate new product processes and standards. Management will then develop and implement training for all USPS marketing employees based on these results.

Evaluation of Management's Response

This action will satisfy the intent of our suggestion.

PROJECT FUNDING

In the project funding area, we made the following observation:

- ◆ No specific funding exists for initial idea exploration.

To facilitate new idea exploration, some private organizations have limited designated funds for research and development purposes. For example, the National Aeronautics and Space Administration (NASA) has two innovative programs which encourage idea development.

A Field Center Director's Discretionary Fund was established in 1978. These funds are used to encourage NASA employees or organizations to develop new concepts that appear promising, in areas that are not directly related to current programs or projects. The projects are selected based on technical value, potential for success and scientific importance. The approved proposals are tightly controlled through fixed completion periods, funding limitations and the use of largely in-house staff.

NASA also has a Small Business Innovative Research Program which was established in 1982. This program

provides start-up and developmental capital to small businesses to develop innovative concepts that meet NASA mission requirements. The goal of the program is to transfer intellectual property and technology developed by universities and laboratories into commercial products and services. The proposals are governed by agreements signed with the businesses, funding limitations, fixed completion periods and a competitive, three-phased funding approach.

Similar programs would be beneficial for the Postal Service. However, senior marketing management advised that this type of special funding was not necessary because of the availability of additional funding and flexibility in using project funds. They believe that any additional business opportunities can be presented to the Management Committee for a decision during the year.

SUGGESTION

The following suggestion will help improve the funding process:

- (8) *Establish limited funding, distinct from normal research and development funds, for use in idea exploration. This fund needs to have clearly defined control procedures to prevent misuse.*

Management's Response

Management does not want a CMO fund. The present *CustomerPerfect!* Deploy Process provides an excellent way to make resource decisions from a corporate perspective. If an opportunity arises after the FY starts, management would rather seek additional funding through the Management Committee

Evaluation of Management's Response

As shown in the report, other agencies have found that such a fund is useful to encourage new idea exploration. We believe that marketing management should retain the flexibility of using such a program, as needed, to stimulate the generation and development of new marketing ideas.

**CONTROL
PROCESS FOR
MARKETING
NEW PROJECTS**

In the control process area, we made the following observations:

- ◆ A process for transitioning completed projects, including ownership, from market to operations, does not exist.

One project has achieved national roll-out but has not been transitioned from marketing to its ultimate management group. Marketing continues to retain lead responsibility for this project without a process for determining at what stage projects should be transferred and who should assume final ownership.

- ◆ Criteria have not been developed to consider streamlined variations of the 5.1 Process, depending on project type, overall investment, or inherent risk.

When the 5.1 Process is used, the process is not modified to consider the type of project, the total projected cost, and/or the associated level of technological and financial risk. A streamlined version of the 5.1 Process could expedite the development of fast-track projects that warrant immediate implementation for those with low technological or financial risk.

SUGGESTIONS

We have the following suggestions to help improve the control process:

- (9) *Establish guidelines for transitioning completed projects from Marketing to other organizational units within or outside of Marketing.*

Management's Response

Marketing management agreed with our suggestion. The New Business Group has completed a majority of these guidelines for the FirstClass PhoneCard, which will provide a framework with which to build a process for transitioning other new products to other USPS organizational units following national implementation.

Evaluation of Management's Response

This action will satisfy the intent of our suggestion.

- (10) *Develop a streamlined process, similar to, but distinct from, the 5.1 Process, for low-risk/low-investment projects. Establish criteria for how those low-risk/low-investment projects will be identified.*

Management's Response

Management stated a streamlined process has now been established and provided a flow chart of this process.

Evaluation of Management's Response

This action will satisfy the intent of our suggestion.

We have provided you with this information to keep you fully apprised of our survey work. We are continuing our proactive research in the marketing area and will conduct future reviews in the areas identified above. If my staff can be of further assistance, please contact [REDACTED] at (703) 248-2300.

Sylvia L. Owens
Assistant Inspector General
for Revenue Cost Containment

Attachment

cc: [REDACTED]
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Major contributors to this report:

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